

SAN JUAN COUNTY WATER CONSERVANCY DISTRICT

(A COMPONENT UNIT OF SAN JUAN COUNTY)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

**SAN JUAN COUNTY WATER CONSERVANCY DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
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FOR THE YEAR ENDED DECEMBER 31, 2005**

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(A COMPONENT UNIT OF SAN JUAN COUNTY)
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SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
GREG MARSING, C.P.A.
DOUGLAS RASMUSSEN, C.P.A.

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
San Juan County Water Conservancy District
Blanding, Utah 84511

Ladies/Gentlemen:

We have audited the accompanying financial statements of the governmental activities and each major fund of San Juan County Water Conservancy District as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

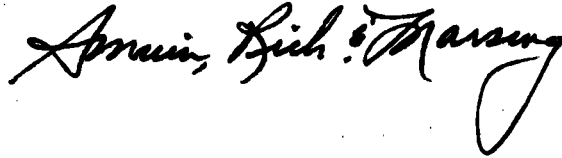
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities and each major fund of San Juan County Water Conservancy District, as of December 31, 2005, and the respective changes in financial position and the respective budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 14, 2006 on our consideration of San Juan County Water Conservancy District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, on pages 3 through 9, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "Smuin, Rich & Marsing". The signature is written in dark ink and is positioned below the printed name.

Price, Utah

February 14, 2006

**SAN JUAN COUNTY WATER CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

This discussion and analysis of the San Juan County Water Conservancy District's financial activities should be considered with the following information and statements:

Consistent with the requirement of the Governmental Accounting Standards Board (GASB), this District implemented new and significant accounting practices effective for the operating year ended December 31, 2005. This Management's Discussion and Analysis is one of the required functions of such new accounting practices, whose intent and design is the development of greater reader interest in pertinent finances and operations. Since this is the second year of our utilizing these new accounting practices, information is now available to provide comparisons for two years. The MD&A for fiscal year 2005 will contain the required discussions and comparative analysis of District data.

Financial Highlights

- ◆ During the year, the District had expenses that were \$165,565 more than revenues, thus decreasing the District's net assets.
- ◆ Property taxes increased during the current year from \$266,290 in 2004 to \$281,327 in 2005. This was an increase of \$15,037 or 5.65%.
- ◆ The District's long-term debt decreased from \$8,039,996 in 2004 to \$7,782,903 in 2005. This was a decrease of \$257,093 or 3.2%.

Overview of Financial Statements

The San Juan County Water Conservancy District's financial statements consist of the following:

Government-wide financial statements

The government-wide financial statements include two financial statements: The Statement of Net Assets and the Statement of Activities. These statements are designed to provide the readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

Statement of Net Assets – provides information regarding all assets of the District, inclusive of cash, investments, escrow accounts, bond premium/discount, accounts receivable, loans, and customer's accounts, as well as District liabilities inclusive of accounts payable and long-term debt. The difference between assets and liabilities is reported as net assets.

Statement of Activities – presents information showing revenues and expenditures of the District and how the government's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Government-wide financial statements (Continued)

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the District include general government and conservation public works. The District does not have any business-type activities.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, and the debt service fund.

The District adopts an annual appropriated budget for its general budget. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. See Exhibit 7.

Notes to Financial Statements

The Notes to Financial Statements – provides information relative to District organizational matters, financial operation decisions, and details to possible budgetary adjustments.

Other Information

Other information – includes any letters, compliance issues, findings of federal notices, or public statements of note, if any.

Government-Wide Financial Analysis

By far the largest portion of the District's net assets reflects its investment in capital assets (e.g., dams, canals and pipelines), less any related debt used to acquire these assets that is still outstanding. The District uses these capital assets to provide irrigation, industrial and culinary water service in the San Juan County area; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Investment in Capital Assets net of related debt is 783,177. Total Net Assets of the District is \$6,399,592, \$3,556,343 is restricted to the purposes related to operating and maintaining uninterrupted use of storage reservoirs and pipelines required in the storage and distribution of water, as well as the payment of long-term debt; \$2,060,072 is unrestricted for organizational and administrative operational use as may be budgeted.

Table 1
Net Assets

	<u>2005</u>	<u>2004</u>
Assets:		
Current and noncurrent assets	\$ 5,716,759	\$ 5,806,624
Bond premium, net	2,083	2,693
Capital assets, net	<u>8,726,378</u>	<u>9,066,258</u>
Total assets	<u>\$ 14,445,220</u>	<u>\$ 14,875,575</u>
Liabilities:		
Long-term debt	\$ 7,519,872	\$ 7,782,903
Other liabilities	<u>555,256</u>	<u>557,015</u>
Total liabilities	<u>\$ 8,075,128</u>	<u>\$ 8,339,918</u>
Net assets:		
Investment in capital assets, net of debt	\$ 783,177	\$ 860,987
Restricted	3,556,343	3,680,455
Unrestricted	<u>2,030,572</u>	<u>1,994,215</u>
Total net assets	<u>\$ 6,370,092</u>	<u>\$ 6,535,657</u>

Statement of Revenues:

- ◆ The District mill levy on San Juan County property for the 2005 tax year was .000557. From that tax assessment, the County Treasurer collected and delivered \$281,327 to the District.
- ◆ The District has water sales and storage right agreement contracts with various San Juan County entities, from which it receives approximately \$13,805 annually, however during 2005, the District had additional water to sale and as a result water sales revenue for 2005 was \$30,760.
- ◆ The District maintains \$1,500,000 as a required loan security. Investment of that fund earns \$197,000 annually. Other invested securities earned \$56,629 in 2005.
- ◆ Construction and improvements to District facilities are completed with grants and loans from UDWR. During 2005, expenses of \$9,120 were accrued and reimbursement is expected sometime in 2006.

Table 2
Revenues

	<u>2005</u>	<u>2004</u>
Revenues:		
Property taxes	\$ 281,327	\$ 266,290
Charges for services	30,760	13,805
Earned interest	253,629	227,019
Capital grant	9,120	350,000
Gain on sale of bond	209	
Net decrease in fair value of investments	<u>(145,616)</u>	<u>(150,430)</u>
Total revenues	<u>\$ 429,429</u>	<u>\$ 706,684</u>

Statement of Expenses:

- ◆ General expenses – maintenance and repairs, utilities, insurance, services, office expenses, etc. totaled \$38,172 and increase over the prior year of \$4,972 or 14.98%.
- ◆ The Blanding Irrigation Co. loan arrangement relative to the White Mesa Pipeline installation requires an annual payment of \$11,500.
- ◆ The long-term debt payment was \$454,235.
- ◆ In 2005, the cost of repairing and maintaining the dams, canals and pipelines totaled \$361,850, which was mainly in the form of depreciation..
- ◆ Government regulations require that the aforementioned \$1,500,000 security fund be given a fair market value annually, that value decreased by \$145,616 in 2005.

Statement of Expenses (Continued):

Table 3
Change in Net Assets

	<u>2005</u>	<u>2004</u>
Expenses:		
General government operating expenses	\$ 38,172	\$ 33,200
Conservation/public works expenses	361,850	336,493
Interest on long-term debt	<u>194,972</u>	<u>199,417</u>
 Total expenses	 <u>\$ 594,994</u>	 <u>\$ 569,110</u>
 Statement of Changes in Net Assets	 <u>2005</u>	 <u>2004</u>
Revenues	\$ 429,429	\$ 706,684
Expenses	<u>594,994</u>	<u>569,110</u>
 Net income (loss)	 \$ (165,565)	 \$ 137,574
 Net Assets - Beginning of Year	 6,535,657	 4,760,579
Prior period adjustment	<u>1,637,504</u>	<u>1,637,504</u>
 Net Assets - End of Year	 <u>\$ 6,370,092</u>	 <u>\$ 6,535,657</u>

Statement of Cash Flows

The Statement of Cash Flows shows the District's operating, investing and capital related activities of the 2005 operating period. It provides readers with readily discerned sources and use information.

Table 4
Condensed Statement of Cash Flows

Cash provided:	<u>December 31, 2004</u>	<u>December 31, 2005</u>
Operating activities	\$ 100,202	\$ 185,128
Investing activities	3,793,996	3,676,156
Capital activities	<u>186,949</u>	<u>187,697</u>
Totals	<u>\$ 4,081,147</u>	<u>\$ 4,048,981</u>
Cash - Beginning of Year		\$ 4,081,147
Cash - End of Year		<u>4,048,981</u>
Net Increase (Decrease) in Cash		<u>\$ (32,166)</u>

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets for its governmental activities as of December 31, 2005, amounts to \$8,726,378 (net of accumulated depreciation). This investment in capital assets includes dams, pipelines, and stability berms.

Table 5
Capital Assets at Year-End
(Net of Depreciation)

	<u>2005</u>	<u>2004</u>
Work in progress		\$ 575,481
Infrastructure	<u>\$ 8,726,378</u>	<u>8,490,777</u>
Total capital assets net of depreciation	<u>\$ 8,726,378</u>	<u>\$ 9,066,258</u>

Capital Assets and Debt Administration (Continued)

Debt

At the year-end, The District had \$7,782,903 in bonds outstanding versus \$8,039,996 last year, a decrease of \$257,093 or 3.2%, as shown in table 6 below.

Table 6
Outstanding Debt at Year-End
2005

	Balance 12-31-04	New Debt	Retirements	Balance 12-31-05
Recapture Project Bond	\$ 4,502,272		\$ (189,688)	\$ 4,312,584
Monticello Project Bond	3,537,724		(67,405)	3,470,319
	<u>\$ 8,039,996</u>	<u>\$...</u>	<u>\$ (257,093)</u>	<u>\$ 7,782,903</u>

Economic Factors and Next Years Budget

During FY1993, serious maintenance problems developed in both Lloyd's Lake and Recapture Reservoir. The Lloyd's Lake matter was resolved by installation of a stability berm on the southeast side of the dam, at a cost of \$315,000. The Recapture Reservoir problem has been corrected at a cost to the District of about \$350,000. A stability berm has been placed on the southwest side of the dam and we are currently building a spillway over the berm to help prevent erosion. Preliminary cost of this spillway project was \$1.3 million. A grant from the Dam Safety Board was granted that will pay for 80% of this project. The other 20% was paid for by money saved by combining the stability berm project with a UDOT project at Devils Canyon. Thanks to these grants from Dam Safety and working with UDOT we will be able to complete these projects with NO additional cost to the District.

Changes have been made in the interest rate of two bonds that will negatively impact our interest earnings. Starting November 2005, rates changed from 14% and 11% to about 4%. This could have a profound impact on how we deal with our loan payments in the future.

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact John L. Thorton at 48 North Main Street, Blanding, Utah 84511 or telephone at (435) 678-2596.

SAN JUAN COUNTY WATER CONSERVANCY DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
 <u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 822,288
Investments	17,895
Receivables:	
Taxes	30,326
Notes	74,643
Accounts	20,869
	<hr/>
Total current assets	\$ 966,021
	<hr/>
Noncurrent assets:	
Restricted assets:	
Investments	\$ 3,208,798
Receivables:	
Loans	128,365
Notes	1,413,575
Bond premium, net of accumulated amortization	2,083
Capital assets	
Infrastructure, net of accumulated depreciation	8,726,378
	<hr/>
Total noncurrent assets	\$ 13,479,199
	<hr/>
Total assets	\$ 14,445,220
	<hr/> <hr/>

"The accompanying notes are an integral part of this statement."

SAN JUAN COUNTY WATER CONSERVANCY DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
 <u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 131,927
Bond interest payable	160,298
Current portion of long-term obligations	<u>263,031</u>
Total current liabilities	<u>\$ 555,256</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	<u>\$ 7,519,872</u>
Total noncurrent liabilities	<u>\$ 7,519,872</u>
Total liabilities	<u>\$ 8,075,128</u>
NET ASSETS:	
Invested in capital assets, net of related debt	\$ 783,177
Restricted for:	
Debt service	3,556,343
Unrestricted	<u>2,030,572</u>
Total net assets	<u>\$ 6,370,092</u>
Total liabilities and net assets	<u><u>\$ 14,445,220</u></u>

"The accompanying notes are an integral part of this statement."

SAN JUAN COUNTY WATER CONSERVANCY DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Primary Government				
Governmental activities:				
General government	\$ 38,172			\$ (38,172)
Conservation/Public works	361,850	\$ 30,760	\$ 9,120	(321,970)
Interest on long-term debt	194,972			(194,972)
Total governmental activities	\$ 594,994	\$ 30,760	\$ 9,120	\$ (555,114)
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				\$ 224,752
Property taxes, levied for debt service				56,575
Investment earnings				253,629
Gain on sale of bonds				209
Net increase (decrease) in fair value of investments				(145,616)
Total general revenues, special items, and transfers				\$ 389,549
Change in net assets				\$ (165,565)
Net assets - beginning				6,535,657
Net assets - ending				\$ 6,370,092

"The accompanying notes are an integral part of this statement."

**SAN JUAN COUNTY WATER CONSERVANCY DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 167,233	\$ 467,358	\$ 187,697	\$ 822,288
Investments, at cost	17,895			17,895
Restricted:				
Investments		3,208,798		3,208,798
Bond premium/discount		2,083		2,083
Receivables:				
Taxes	24,222	6,104		30,326
Loans	128,365			128,365
Accounts	20,869			20,869
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 358,584	\$ 3,684,343	\$ 187,697	\$ 4,230,624
	<hr/>	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES:				
Accounts payable	\$ 3,927	\$ 128,000		\$ 131,927
	<hr/>	<hr/>		<hr/>
Total liabilities	\$ 3,927	\$ 128,000	\$...	\$ 131,927
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES:				
Reserved for:				
Debt service fund		\$ 3,556,343		\$ 3,556,343
General fund	\$ 128,365			128,365
Unreserved, reported in:				
General fund	226,292			226,292
Capital projects fund			\$ 187,697	187,697
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	\$ 354,657	\$ 3,556,343	\$ 187,697	\$ 4,098,697
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 358,584	\$ 3,684,343	\$ 187,697	\$ 4,230,624
	<hr/>	<hr/>	<hr/>	<hr/>

"The accompanying notes are an integral part of this statement."

SAN JUAN COUNTY WATER CONSERVANCY DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2005

Total fund balances - governmental fund types: \$ 4,098,697

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.

Infrastructure 8,726,378

The government-wide statement of net assets and statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Whereas financial statements for governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become available and measurable. Because the sale of water storage rights was accounted for using the modified accrual basis rather than full accrual, and the total gain was not recognized when the sale took place, the following difference exists.

1,592,361

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bond interest payable	\$ (160,298)	
G.O. bonds payable - current portion	(263,031)	
G.O. bonds payable - greater than one year	<u>(7,519,872)</u>	(7,943,201)

Payments received on amounts owed to the District are reported as revenue in governmental funds and, thus, has the effect of increasing fund balance because current financial resources have been received. For the District as a whole, however, the payments received reduce the receivable in the statement of net assets and does not result in reporting revenue in the statement of activities.

(104,143)

Net assets of governmental activities	\$	<u>6,370,092</u>
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"The accompanying notes are an integral part of this statement."

SAN JUAN COUNTY WATER CONSERVANCY DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

				TOTAL GOVERNMENTAL FUND
	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	DECEMBER 31, 2005
REVENUES:				
Property taxes	\$ 224,752	\$ 56,575		\$ 281,327
Intergovernmental			\$ 9,120	9,120
Water storage fees and sales	90,760	14,643		105,403
Interest revenue	2,347	250,534	748	253,629
Net increase (decrease) in fair value of investments		(145,616)		(145,616)
Total revenues	\$ 317,859	\$ 176,136	\$ 9,868	\$ 503,863
EXPENDITURES:				
Current -				
General government	\$ 38,172			\$ 38,172
Water projects	15,514			15,514
Capital outlay			\$ 6,456	6,456
Debt service -				
Principal retirement		\$ 257,093		257,093
Interest and fiscal charges on long term debt		199,532		199,532
Total expenditures	\$ 53,686	\$ 456,625	\$ 6,456	\$ 516,767
Excess of revenue over (under) expenditures	\$ 264,173	\$ (280,489)	\$ 3,412	\$ (12,904)
OTHER FINANCING SOURCES (USES):				
Bond premium/discount amortization		\$ (417)		\$ (417)
Gain on sale of GNMA		209		209
Transfers in		156,585		156,585
Transfers out	\$ (156,585)			(156,585)
Total other financing sources (uses)	\$ (156,585)	\$ 156,377	\$...	\$ (208)
Excess of revenues and other sources over (under) expenditures and other uses	\$ 107,588	\$ (124,112)	\$ 3,412	\$ (13,112)
FUND BALANCE, January 1,	247,069	3,680,455	184,285	4,111,809
FUND BALANCE, December 31,	\$ 354,657	\$ 3,556,343	\$ 187,697	\$ 4,098,697

"The accompanying notes are an integral part of this statement."

**SAN JUAN COUNTY WATER CONSERVANCY DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net changes in fund balances - total governmental funds	\$	(13,112)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$339,880) exceed capital outlays (\$0) in the current period.		(339,880)
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The issuance of long-term debt (e.g., bonds) provide current financial resources to governmental funds, while the repayment of the principal and interest of long-term debt consumes the current financial resources of governmental funds. In the Statement of Activity, principal payment on bonds is not recorded and interest expense is recognized as it accrues, regardless of when it is due. Also, governmental funds report the effect of issuance costs and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of bond principal	\$ 257,093	
Interest expense - general obligation bonds	4,977	262,070

Payments received on amounts owed to the District are reported as revenue in governmental funds and, thus, has the effect of increasing fund balance because current financial resources have been received. For the District as a whole, however, the payments received reduce the receivable in the statement of net assets and does not result in reporting revenue in the statement of activities.

(74,643)

Change in net assets of governmental activities	\$	(165,565)
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"The accompanying notes are an integral part of this statement."

SAN JUAN COUNTY WATER CONSERVANCY DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES:				
Property taxes	\$ 195,478	\$ 195,478	\$ 224,752	\$ 29,274
Water storage fees and sales	78,000	78,000	90,760	12,760
Interest income	3,200	3,200	2,347	(853)
Total revenues	\$ 276,678	\$ 276,678	\$ 317,859	\$ 41,181
EXPENDITURES:				
Current:				
Staff & operations	\$ 71,850	\$ 71,850	\$ 38,172	\$ 33,678
Water projects	136,000	136,000	15,514	120,486
Total expenditures	\$ 207,850	\$ 207,850	\$ 53,686	\$ 154,164
Excess of revenue over (under) expenditures	\$ 68,828	\$ 68,828	\$ 264,173	\$ 195,345
OTHER FINANCING SOURCES (USES):				
Transfers out	\$ (156,585)	\$ (156,585)	\$ (156,585)	\$...
Total other financing sources (uses)	\$ (156,585)	\$ (156,585)	\$ (156,585)	\$...
Excess of revenues and other sources over (under) expenditures and other uses	\$ (87,757)	\$ (87,757)	\$ 107,588	\$ 195,345
Fund balances - beginning of year	247,069	247,069	247,069	
Fund balances - end of year	\$ 159,312	\$ 159,312	\$ 354,657	\$ 195,345

"The accompanying notes are an integral part of this statement."

**SAN JUAN COUNTY WATER CONSERVANCY DISTRICT
(A COMPONENT UNIT OF SAN JUAN COUNTY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of San Juan County Water Conservancy District (referred to as the District hereafter) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below and in subsequent sections of these notes.

A. Reporting Entity

The District was organized by San Juan County in 1964 under Title 73, Chapter 9, of the Utah State Code. The District has a 9-member board appointed by the county commission. The District provides maintenance of existing and construction of new dams, canals, and pipelines associated with irrigation, industrial and culinary water in the San Juan County area.

All funds, including all financial activities over which the District has financial accountability, are included in this report. The District's financial reporting entity is comprised of all funds of the District, which constitute the primary government.

The criteria used by the District to determine the reporting entity consists of including any governmental department, agency, institution, commission or other governmental organization of which the District's governing board has financial accountability. Financial accountability is derived from the governmental units' power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Financial accountability implies that a governmental unit is dependent on another and the dependent unit should be reported as part of the other.

A second criteria used in evaluating potential component units is the scope of public service. Application for these criteria involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criteria used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. According to these criteria, the District is considered a "component unit" of San Juan County, and has been included in the County's financial statements.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. New Accounting Standards Adopted

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34 (as amended by GASB Statement No. 37), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- 1) A Management's Discussion and Analysis (MD&A) section that provides an analysis of the District's overall financial position and results of operations.

Financial statements prepared using full-accrual accounting for all the District's activities, including infrastructure.

- 2) A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statement (including the notes to the financial statements).

C. Government –Wide and Fund Financial Statements

Generally accepted accounting principles (GAAP) require that state and local governments provide a government-wide statement of net assets and a government-wide statement of activities. The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) are required to be presented using the economic resources measurement focus and the accrual basis of accounting, the same measurement focus and basis of accounting employed by private-sector business enterprises and not-for-profit organizations. The statements report information on all of the non-fiduciary activities of the District. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The statement of net assets is the basic government-wide statement of position that presents all of the District's permanent accounts (assets, liabilities, and net assets).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, interest, user fees and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are recognized as revenue in the year for which they are levied. Amounts received or recognized as receivable at fiscal year end are included in the financial statements as taxes receivable. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

General Fund – The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those that are required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the District.

Capital Projects Fund – The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB).

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources, as they are needed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Data

The system of budgeting used by the District complies primarily with the procedures outlined in the "State of Utah Uniform Accounting Manual for Special Districts", which is in accordance with generally accepted accounting principles. Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations lapse at year-end.

The District follows the budgetary practices and procedures required by Utah State law. These requirements are summarized as follows:

1. A formal budget is adopted for all funds which require a budget: all general, debt service and capital projects funds.
2. The budget is a complete financial plan, which identifies all estimated revenues and all appropriations for expenditures for the year. The budget must balance, that is estimated revenues and other financing sources must equal appropriated expenditures.
3. On or before the first regularly scheduled meeting of the governing body in November, the District clerk or manager prepares a tentative budget and submits it to the District Board.
4. The tentative budget is a public record and is available for public inspection for at least seven days prior to public hearings held to consider adoption of the budget.
5. Notice of the scheduled public hearings is published at least seven days prior to the meeting.
6. A public hearing is held on the tentatively adopted budget. Members of the public may comment on the budget and recommend changes to the District Board.
7. The District Board considers the comments made by the public and makes final adjustments to the budget.
8. By December 31, the District Board adopts the budget by resolution. A copy of the budget is certified by the County Auditor and is filed with the State Auditor within thirty days of adoption. A certified copy of the budget is available for public inspection.
9. The budget may be amended to reflect changes in circumstances, which occur during the year.

F. Cash and Cash Equivalents

The District considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF), to be cash and cash equivalents.

G. Investments

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All investment income, including changes in the fair value of investments, is recognized as revenue (expense) in the governmental activities statement of activities and the governmental fund statements.

H. Accounts Receivable

Accounts receivable in the governmental fund types consist of amounts due from irrigators in Blanding and Monticello who purchased water or storage rights from the District.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Capital Assets

Capital assets, which include infrastructure assets (dams and pipelines), are reported in the applicable governmental column in the government-wide financial statements. The District defines capital assets as assets with a useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Infrastructure asset of the District are depreciated using the straight-line method over the following estimated lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	10-50

K. Long-Term Obligations

All long-term debt and other long-term obligations to be repaid from governmental resources are reported as liabilities in the governmental-wide financial statements. The long-term debt consists of general obligation bonds. Repayment of principal is recorded as a reduction of the liability, and interest expense is recorded as incurred.

Long-term debt and other long-term liabilities are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest is reported as expenditures in the Debt Service Fund when paid.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Asset Classifications

In the government-wide financial statements, net assets are displayed in three components:

1. Investment in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Governmental fund equity is classified as fund balance. Fund balance is classified as either reserved or unreserved, with unreserved further split between designed and undesignated. Amounts are classified as reserved when amounts are required to be reserved for a specific purpose, either through legislation or third-party contracts. The District’s Board can designate unreserved amounts for a specific purpose.

2. DEPOSITS AND INVESTMENTS

The District follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as “cash and cash equivalent” and “investments.” Income from the investment of the pooled cash is allocated based on each fund's portion of the pool. In addition, investments are separately held by individual funds.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At December 31, 2005, the District’s bank balance of cash on deposit was \$821,617 of this amount \$100,000 was insured. But \$721,617 of the deposits are uninsured and uncollateralized.

2. DEPOSITS AND INVESTMENTS (Continued)

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

2. DEPOSITS AND INVESTMENTS (Continued)

As of December 31, 2005, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
Governmental Security Income Fund - underlying securities GNMA	\$ 3,283	\$ 3,283			
U.S. Treasury Bonds held in District's name by Wells Fargo Bank of Utah, and pledged as collateral for loan from Utah Division of Water Resources	1,535,561	1,012	\$ 994,079	\$ 540,470	
State of Utah Public Treasurer's Investment Fund	1,687,849	1,687,849			
Total Investments	<u>\$ 3,226,693</u>	<u>\$ 1,692,144</u>	<u>\$ 994,079</u>	<u>\$ 540,470</u>	<u>\$...</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The District also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has not adopted a formal policy with regards to credit risk on investments but the District informally follows the policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

2. DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2005, the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			Unrated
		AAA	AA	A	
Governmental Security - Income Fund - underlying securities GNMA	\$ 3,283				\$ 3,283
U.S. Treasury Bills held in District's name by Wells Fargo Bank, and pledged as collateral for loan from Utah Division of Water Resources	1,535,561				1,535,561
State of Utah Public Treasurer's Investment Fund	1,687,849				1,687,849
Total	<u>\$ 3,226,693</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 3,226,693</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. As of December 31, 2005, the District had \$1,687,849 invested in the Public Treasurer's Investment Fund and was held by them.

3. PREMIUMS/DISCOUNTS

The \$1.5 million in escrow was invested in U.S. Treasury Bonds at a net premium of \$11,250. The premium will be amortized over the life of the bonds. The charge for 2005 was \$417.

4. **CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Work in progress	\$ 575,481		\$ (575,481)	
Total capital assets not being depreciated	\$ 575,481	\$...	\$ (575,481)	\$...
Capital assets being depreciated:				
Infrastructure	\$ 15,290,010	\$ 575,481		\$ 15,865,491
Total capital assets being depreciated:	\$ 15,290,010	\$ 575,481	\$...	\$ 15,865,491
Less accumulated depreciation for:				
Infrastructure	\$ 6,799,233	\$ 339,880		\$ 7,139,113
Total accumulated depreciation	\$ 6,799,233	\$ 339,880	\$...	\$ 7,139,113
Total capital assets being depreciated, net	\$ 8,490,777	\$ 235,601	\$...	\$ 8,726,378
Governmental activities capital assets, net	\$ 9,066,258	\$ 235,601	\$ (575,481)	\$ 8,726,378

5. **LOANS RECEIVABLE**

As part of the financing for Phase II of the Recapture Pipeline, the Blanding Irrigation Company borrowed \$450,000 from the Utah Division of Water Resources. The District agreed to pay \$50,000 of that loan. It also agreed to pay one half of Blanding Irrigation Company's payment on the remaining \$400,000 loan when the District had paid off its portion. Blanding Irrigation Company's annual payment is \$23,000. The District, therefore, would contribute \$11,500 annually. When the Utah Division of Water Resources loan has been paid in full, the Blanding Irrigation Company will pay the District \$11,500 per year until that portion of the \$400,000 advanced by the District has been fully repaid. Engineering fees of \$5,635 were added in 1988 to the amount the District will pay on the UDWR loan.

5. **LOANS RECEIVABLE (Continued)**

The balance of the loan on December 31, 2005 was as follows (negative number represents amount owed to the District by Blanding Irrigation Company and is included in the Loans Receivable category):

Original balance	\$ 50,000
Add: engineering fees	5,635
Less: payments	<u>(184,000)</u>
Balance at December 31, 2005	<u>\$ (128,365)</u>

6. **LONG-TERM DEBT**

The District has two bonds payable to the Utah Division of Water Resources (UDWR). The District borrowed \$6,500,000 at 3% per annum, payable over 40 years for the Recapture Dam Project. The District also borrowed \$3,500,000 at 3.45% per annum payable over 40 years for the Monticello Dam Project. Effective March 1, 1991, interest on the Recapture bond was revised to 2.1% per annum with an annual payment of \$284,235. Also on March 1, 1991, interest on the Monticello bond was revised to 2.9% per annum with an annual payment of \$170,000. Payments are applied first to accrued interest, then to charges incurred by the State for investigation, development and administration, then to principal, and last to penalties. One million five hundred thousand dollars (\$1,500,000) is required to provide security on the loans. The balance due to the UDWR on December 31, 2005 consisted of the following:

	<u>Principal</u>	<u>Engineering and Interest</u>	<u>Total</u>
Recapture Project	\$ 4,312,584		\$ 4,312,584
Monticello Project	<u>3,470,319</u>		<u>3,470,319</u>
	<u>\$ 7,782,903</u>	<u>\$...</u>	<u>\$ 7,782,903</u>

7. **LONG-TERM DEBT (Continued)**

The change in long-term debt is as follows:

	Balance 12-31-04	New Debt	Retirements and Adjustments	Balance 12-31-05
Recapture Project	\$ 4,502,272		\$ (189,688)	\$4,312,584
Monticello Project	3,537,724		(67,405)	3,470,319
	<u>\$ 8,039,996</u>	<u>\$...</u>	<u>\$ (257,093)</u>	<u>\$ 7,782,903</u>

Generally, when the District incurs new debt, it is the result of engineering fees and improvements to dams required by the State to meet safety regulations. The State of Utah has the responsibility to inspect dams periodically to verify that these structures are safe and performing according to their designs. If the Division of Water Resources (DWR) finds structural problems or if additional safety requirements have been imposed, the DWR can order improvements to be made. To pay for additional improvements to the dams, the Division of Water Resources loans money to the District and adds the amount of the costs incurred to the outstanding balance of the current loans.

The note payable to the UDWR on the Monticello Project was a negative amortization note for the first part of the term.

The principal and interest on all debt matures according to the following schedule:

YEAR	RECAPTURE PRINCIPAL DUE	RECAPTURE INTEREST DUE	MONTICELLO PRINCIPAL DUE	MONTICELLO INTEREST DUE	TOTAL AMOUNT DUE
2006	\$ 193,672	\$ 90,564	\$ 69,359	\$ 100,640	\$ 454,235
2007	197,740	86,495	71,371	98,629	454,235
2008	201,892	82,343	73,441	96,559	454,235
2009	206,132	78,103	75,570	94,429	454,234
2010	210,460	73,775	77,762	92,238	454,235
2011-2015	1,120,483	300,691	423,973	426,026	2,271,173
2016-2020	1,243,180	177,995	489,120	360,880	2,271,175
2021-2025	939,025	42,373	564,277	285,723	1,831,398
2026-2030			650,983	199,017	850,000
2031-2035			751,011	98,989	850,000
2036			223,452	6,481	229,933
	<u>\$ 4,312,584</u>	<u>\$ 932,339</u>	<u>\$ 3,470,319</u>	<u>\$ 1,859,611</u>	<u>\$ 10,574,853</u>

8. NOTES RECEIVABLE

The District has a non-interest bearing agreement with Blanding City to sell the perpetual right to 500 acre-feet of water storage, per water year, from the Recapture Dam Project for \$800,000. Blanding City agreed to pay the District \$20,000 per year for 40 years for this right, beginning in November 1985. At December 31, 2005, the balance was \$380,000.

In 1997, the District entered into another non-interest bearing agreement with Blanding City to sell a 300 acre-foot storage right in the Recapture Dam Project for \$480,000. In consideration, Blanding City agreed to pay \$341,142.86 in 1997 and \$5,142.86 each year thereafter on or before November 15th of each year for a total of 28 years. At December 31, 2005, the balance was \$97,714.

In 1987, the District entered into a non-interest bearing agreement with the City of Monticello to sell 500 acre-feet of perpetual water storage space, per water year in Monticello Reservoir, for the price of \$800,000. The City of Monticello was obligated to pay the District one payment when the agreement was signed in March of 1987 and another on November 15, 1987, which left 38 annual payments of \$20,000, beginning on November 15, 1988, and continuing on November 15th of each year thereafter until all remaining payments are made. At December 31, 2005, the balance was \$400,000.

In 1997, the District entered into another agreement with the City of Monticello to sell 500 more acre-feet of perpetual water storage space, per water year in Monticello Reservoir for \$800,000. The District received \$533,496 at the time of the sales contract execution, and the City is required to make 28 annual payments of \$9,500.00 beginning in 1998 and for each year thereafter until the balance of the note is paid in full. At December 31, 2005, the balance was \$190,504.

The District entered into an agreement with the Blanding Irrigation Company to purchase 2,250 acre-feet of perpetual water storage rights in the Recapture Reservoir. The Blanding Irrigation Company agreed to pay \$20,000 per year until the year 2025. The District agreed to defer payments for 1990 and 2002, which were added to the end of the contract lease. At December 31, 2005, the balance was \$420,000.

9. WATER RIGHT AGREEMENTS

In 2001, the District entered into an agreement with Bruce Lyman to sell a 60 acre-feet water right for \$22.50 per acre-foot in the Recapture Reservoir with the guaranty he will purchase not less than an additional 100 acre-feet annually for not less than five years beginning on April 1st, 2001. The District received \$3,600 during 2001 and will receive an additional \$3,600 annually beginning in 2002 and for each year thereafter for at least four years.

In 1998, the District entered into an agreement with Blue Mountain Irrigation Company pertaining to the right to store, impound and transport a maximum of five hundred (500) acre feet of Blue Mountain's water a year in Monticello Reservoir (Lloyd's Lake). The term of the lease commenced on April 1st, 1998 and will terminate five years from said date, unless Blue Mountain exercises its option to renew this agreement for an additional five years. In consideration for this water right, Blue Mountain agreed to annual payments of \$5,000.

9. **WATER RIGHT AGREEMENTS (Continued)**

In 1997, the District entered into an agreement with Gary Hall pertaining to the right to store, impound and transport a maximum of three hundred (300) acre-feet of his water per year in Monticello Reservoir (Lloyd's Lake). The term of the lease commenced on January 1st, 1997 and will terminate five years from said date, unless Gary Hall exercises his option to renew this agreement for an additional five years. In consideration for this water right, Gary Hall agreed to annual payments of \$3,000.

10. **PROPERTY TAX CALENDAR**

The County assesses property taxes for all taxing jurisdictions within its boundaries, including cities, school districts, and special districts, in accordance with State law. Uncollected taxes, including delinquent amounts, are deemed to be substantially collectible or recoverable through foreclosure. Accordingly, no allowance for doubtful tax accounts is deemed necessary. Property taxes become a lien against the property as of January 1st in the year in which due and are assessed in July through billing to the property owner. Payments are due in one installment on November 30th to the County and remitted to the District by the county treasurer as collected.

11. **RETIREMENT**

The District has no retirement program.

12. **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To cover these liabilities, the District joined together with other governmental entities to form a public entity risk pool that operated as a common risk management and insurance program. The District pays an annual premium to the risk management pool for its general insurance coverage. The agreement for formation of the risk management pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies at various levels of risk.

13. **OFF BALANCE SHEET RISK**

The District has one checking account with Wells Fargo Bank and the balance at December 31, 2005 was \$821,617. FDIC insurance will only insure \$100,000 on deposit leaving \$721,617 at risk of being lost.

14. **BUDGETARY COMPLIANCE**

There were no unfavorable budget variances for the year ended December 31, 2005.

15. FAIR VALUE OF INVESTMENTS

During the year ended December 31, 2005, the fair value of investments, in the Debt Service Fund, decreased by \$145,616. Therefore a decrease in revenues (net decrease in fair value of investments) of \$145,616 was recorded in the Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities.

16. RESTRICTED INVESTMENTS

Through the years of operations, the District has issued general obligation bonds and has set up escrow accounts in order to make payments on the bonds. To keep track of these funds, the District has restricted the use of these funds in the following manner:

Debt sinking funds	<u>\$3,208,798</u>
Total restricted cash	<u><u>\$3,208,798</u></u>

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
GREG MARSING, C.P.A.
DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
San Juan County Water Conservancy District
Blanding, Utah 84511

RE: Report on Legal Compliance with
Applicable Utah State Laws and
Regulations

Ladies/Gentlemen:

We have audited the accompanying financial statements of the governmental activities and each major fund of San Juan County Water Conservancy District for the year ended December 31, 2005, and have issued our report thereon dated February 14, 2006. The District received the following nonmajor grant, which is not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the District's financial statements.)

Revolving Construction Fund (Division of Water Resources)

Our audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Budgetary Compliance
Other General Issues

Purchasing Requirements
Truth in Taxation & Property
Tax Limitations
Special Districts

The District did not receive any major State grants during the year ended December 31, 2005.

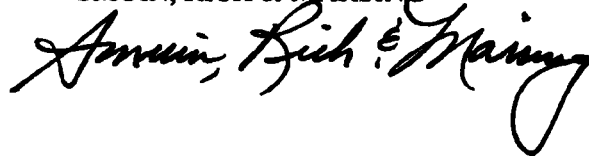
The management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, San Juan County Water Conservancy District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Amuin, Rich & Marsing", written in dark ink.

Price, Utah

February 14, 2006

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CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
San Juan County Water Conservancy District
Blanding, Utah 84511

RE: Report on Compliance and on
Internal Control Over Financial
Reporting Based on an Audit of
Financial Statements Performed
in Accordance With Government
Auditing Standards

We have audited the financial statements of San Juan County Water Conservancy District, as of and for the year ended December 31, 2005, and have issued our report thereon dated February 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance and Other Matters

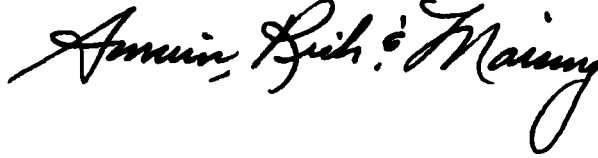
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, reading "Amin Rich Marsing". The signature is written in dark ink and is positioned below the printed name "SMUIN, RICH & MARSING".

Price, Utah

February 14, 2006

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
San Juan County Water Conservancy District
Blanding, Utah 84511

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of San Juan County Water Conservancy District for the year ended December 31, 2005.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all inclusive. We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

STATE OF UTAH LEGAL COMPLIANCE

Treasurer's Bond

The State of Utah requires every public treasurer to secure a fidelity bond for an amount that is a certain percentage of its prior years budgeted gross revenues. This is according to Utah Code 51-7-15 and Rule 4 of the Utah Money Management Council. We have calculated the amount that is required for the fidelity bond and the District is not bonded for a proper amount. The amount of the bond for the District should have been at least \$170,287, but was only \$42,000. For the year ended December 31, 2005, the District should be bonded for 6% of the total 2005 budgeted revenues, but not less than \$70,000. We recommend that the District comply with State law and acquire a fidelity bond for the proper amount.

District's Response

The District will review the amount of its fidelity bond and if necessary will increase the bond to the required level to meet State of Utah requirements.

Fund Balance Accumulation

According to Utah Code 17A, the fund balance in the General Fund is limited to 25% of total estimated revenue of the General Fund or 100% of the current year's property taxes. From review of the current year General Fund balance and revenues, the District's General Fund balance is in excess of Utah State limitations. The District can bring the General Fund's fund balance into compliance by transferring the excess of fund balance into the Capital Projects Fund or Debt Service Fund. We recommend the District make the necessary adjustment to bring the General Fund balance into compliance with Utah Law.

District's Response

During the year the District changed business managers due to illness. It has taken some time for the current business manager to determine all the needs with respect to the District and its functions. The District will make the necessary changes to bring its fund balance into compliance.

Budgetary Compliance

Utah Code Section 17A-1, Part 4 requires all Districts to hold a public hearing to receive comment on the budget and recommend changes to the District Board. The District Board then considers the comments made by the public and makes final adjustments to the budget. By December 31 of each year, the District Board is required to adopt the budget by resolution.

During our testwork, we noted that the public hearing for the 2006 budget was held on January 25, 2006, and the budget was adopted on December 20, 2005. We recommended that the District hold a public hearing each year to receive public comment on the budget prior to the Board adopting the budget.

District's Response

The District will review the timing on when the public hearing for the budget was advertised and if necessary make changes to comply with state law.

Truth in Taxation

Each year on or before June 22, the District is required to adopt a certified tax rate for the District. During the year, we were unable to find in the minutes where the District had recorded adopting their certified tax rate.

We recommend the District record the adoption of their certified tax rate in the minutes of their public meetings.

District's Response

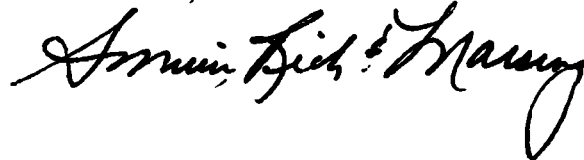
The District will review the procedures for adopting its certified tax rate and make sure minute records are made of the adoption of the rate.

SUMMARY

We feel the State of Utah Legal Compliance issues mentioned above are areas where the District can make changes to further improve its internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Armin Rich & Marsing", written in dark ink.

Price, Utah

February 14, 2006